

# **CHINA'S WTO ACCESSION**

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Good morning, and thank you very much. I am very pleased to be here with the Kellogg School this morning, and for the opportunity to speak and exchange views with you on one of America's most important trade and foreign policy goals: China's accession to the WTO.

## **ONE-WAY CONCESSIONS**

In the most basic sense, when we consider China's WTO accession and permanent Normal Trade Relations, we are facing a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton sent to Congress last week, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

## **DEEPER ISSUES**

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so; but we must also think about the wider implications.

China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21<sup>st</sup> century; and our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension.

These disagreements and points of tension often dominate the China debate. Many ask why we should proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. And given the gravity of our relationship, it is fair -- in fact necessary -- to judge the WTO accession in their light. And we can begin by tracing back to its origins the institution China now seeks to join.

## **AMERICA AND THE TRADING SYSTEM**

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. And its creation in 1948 reflected the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war.

One of the failures they had seen in the 1930s was the inability of global leaders to resist a cycle of protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which had deepened the Depression and contributed to the political upheavals of the era. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Thus the GATT was one in a series of related policies and institutions that have served us well for nearly six decades: collective security, reflected by the United Nations, NATO and our Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Our Asia policies today continue to reflect these principles.

- Our military presence in the Pacific, and alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the strongest guarantees of a peaceful and stable region.
- Our advocacy of human rights, over the years, has helped reformers bring democracy to South Korea, Taiwan, Thailand, the Philippines and perhaps now Indonesia.
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that accompany economic.
- And our trade policy – under the Clinton Administration, creation of a regional framework for open trade through APEC; nearly 100 specific market-opening agreements including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; together with work toward normalization of economic relations with Vietnam, Laos and Cambodia – is helping to create a more open region with greater prospects for sustainable growth in the years ahead.

Stepping back for a moment, half a century of experience has fully vindicated the commitment to open markets we made fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled.

And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And -- as Truman and his colleagues predicted -- in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

## **CHINA FROM REVOLUTION TO REFORM**

China, of course, took a very different road after the war.

With the Communist revolution in 1949, it shut the doors it had once tentatively opened to the world. Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies -- destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. And all this had international effects as well: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China's rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China's domestic reforms since the 1970s have helped undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. And American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to the more recent agreements on intellectual property, textiles and agriculture -- has worked with and helped to deepen Chinese reform.

## **CHINA WTO ACCESSION**

The bilateral agreement we reached with China last November thus caps of thirty years of patient, detailed work. It is a comprehensive agreement, covering industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports.

In doing so, it will help China create a more open, efficient economy; and help us redress a deeply imbalanced trade relationship. It reflects the best economic principles taught by the Kellogg School, and the classical Chinese historian Ssu-ma Ch'ien, writing in 90 B.C.:

"There must be farmers to produce food, men to extract the wealth of mountains and

marshes, artisans to process these things, and merchants to circulate them. There is no need to wait for government orders: each man will do his part as he gets what he desires. So cheap goods will go where they fetch more, while expensive goods will make men search for cheap ones. When all work willingly at their trades, just as water flows ceaselessly downhill day and night, things will appear unsought and people will produce them without being asked."

As it opens China's market to our goods and services, this is the type of open, reformed economy the agreement will help create.

- In manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. China will also eliminate all quotas and discriminatory taxes. And of critical importance, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose. To choose a few examples of special importance to Illinois, on heavy agricultural equipment, Chinese tariffs will drop by half, from 11.5% to 5.7%; on semiconductors and telecommunications equipment, tariffs will drop to zero.
- In services, China's markets will open for the full range of industries: distribution, telecommunications, financial services, insurance, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. Express delivery firms at O'Hare, Chicago's banks and insurance companies, and others will be able to set up operations in China; and in fields such as distribution, telecommunication and several others, China will open to foreign participation for the first time since the 1940s.
- In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. China will also expand access for bulk agricultural products -- Illinois wheat or soy-bean oil are examples; agree to end import bans, cap and reduce trade-distorting domestic supports and eliminate export subsidies.
- And the agreement strengthens protection of American workers and businesses against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. It addresses state enterprise policies, forced technology transfer, local content, offsets and export performance requirements. It provides, for a 12-year period, a special anti-import surge remedy to discipline market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing our right to use a special non-market economy methodology to address dumping for 15 years after China's accession to the WTO.

All these commitments are fully enforceable, through our trade laws, through WTO dispute settlement, through periodic multilateral review of China's adherence as well as multilateral pressure from all 135 members of the WTO, through increased monitoring by the

U.S., with the President's request last month for a tripling of funds for China compliance and enforcement in his Fiscal Year 2001 budget, and of course through other mechanisms such as the special anti-dumping and anti-import surge remedies.

Immediately on accession to the WTO, China will begin opening its market in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three. And the work ahead for China -- bilateral market access agreements with several other WTO members, most notably the European Union, and a multilateral negotiation on additional rules -- should strengthen the already very strong accession agreement we negotiated.

### **PERMANENT NORMAL TRADE RELATIONS**

China will be a WTO member very soon. Its government has committed itself to a faster pace of market-opening and reform; and to the risks these entail. The only question, ironically, is whether we will receive the full benefits of their accession as laid out in the very agreement we negotiated. And that brings me to the question of permanent Normal Trade Relations, or NTR.

By contrast to China's historic set of commitments, we do very little. We make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our trade laws.

But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. In terms of our China policy, this is no real change. NTR is simply the tariff status we give to virtually all our trading partners; which we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers and factory workers, as well as service providers, would be left behind.

### **WTO ACCESSION AND BROADER ISSUES**

That is reason enough for our commitment to secure permanent NTR. But the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security; and when we look beyond the precise commitments China has made to their deeper meaning, we see that these American goals would be fundamentally threatened by a retreat from this historic agreement.

As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather economic opening to and engagement with the world, and ultimately development of the rule of law. That is why some of the leading advocates of democracy and human rights in China -- Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party -- see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. Over thirty years, as China has reformed its economy and opened to the world, its stake in the region's stability and prosperity has grown. Economic reform has thus helped move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we disagree with China we must act with candor and firm assertion of our interests and values -- as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as will do next week at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

But this is only part of our approach. As Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20<sup>th</sup> century, as we insist upon our rights, we also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

Each step in our China trade policy since 1972 has rested upon concrete American interests; promoted reform and an emerging rule of law within China; and better integrated China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our Pacific alliances and military commitments, in tandem with our advocacy of human rights, and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world.

And China's WTO accession, together with permanent NTR, will be the most significant step in this process for many years.

## **CONCLUSION**

So, if we have the wisdom and the confidence to make the right choice, we open an extraordinary set of possibilities.

A new and fundamentally improved trade relationship with the world's largest country, which offers practical, concrete benefits to communities throughout America: stronger guarantees of fairness for our working people and businesses; new export opportunities that mean jobs and growth.

A decisive step toward deeper and swifter reform within China, strengthening the rule of law; offering new opportunities and hope for a better life to hundreds of millions of Chinese; and making China a country freer, more open to the world, and more responsive to the rule of law than it is today.

And a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us. These are the stakes. And that is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.